

**UNITED STATES OF AMERICA
BEFORE THE DEPARTMENT OF ENERGY
OFFICE OF ENERGY POLICY AND SYSTEMS ANALYSIS AND
QUADRENNIAL ENERGY REVIEW TASK FORCE**

COMMENTS OF THE PROCESS GAS CONSUMERS GROUP

Pursuant to the Federal Register Notice issued by the Department of Energy (“DOE”) on August 25, 2014,¹ the Process Gas Consumers Group (“PGC”) hereby submits the following comments.

I. IDENTITY OF PGC AND COMMUNICATIONS

A. Identity of PGC

PGC is a trade association of industrial end user consumers of natural gas, organized to promote the development and adoption of coordinated, rational, and consistent federal and state policies governing interstate natural gas service to industrial gas users. PGC members own and operate hundreds of manufacturing plants and facilities in virtually every state in the nation and consume natural gas delivered through interstate natural gas pipelines systems throughout the United States. As natural gas end users, PGC members are particularly concerned with matters related to infrastructure reliability and cost allocation.

B. Communications

Correspondence and communications regarding these comments should be addressed to the undersigned as follows:

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¹ Quadrennial Energy Review: Notice of Deadline for Public Comments, 79 Fed. Reg. 50638 (Aug. 25, 2014).

II. BACKGROUND

The first three months of 2014 were marked by severely cold weather, extremely high natural gas and electric demand, and record high natural gas prices, which translated into abnormally high electricity prices. The cold weather tested the performance of natural gas and electricity systems and functioning of markets, which at times came under extreme stress.

During that time, President Obama issued a *Presidential Memorandum – Establishing a Quadrennial Energy Review* on January 9, 2014. The Presidential Memorandum established a Task Force, supported by the Secretary of Energy, to prepare the Quadrennial Energy Review (“QER”) Report, policy analysis and modeling, and stakeholder engagement. The initial focus of the QER is on infrastructure for transporting, transmitting, storing, and delivering energy. DOE invited written comments on this topic to assist it in drafting the QER report.

III. COMMENTS

PGC supports DOE’s efforts to investigate these issues, and appreciates the opportunity to comment. PGC is hopeful that DOE’s attention to concerns related to natural gas infrastructure will lead to concrete and equitable solutions for all stakeholders.

The nation’s electric utilities are increasingly relying on natural gas to produce electricity. According to the Energy Information Administration (“EIA”), the United States’ total natural gas consumption is expected to grow from 25.6 trillion cubic feet (“Tcf”) in 2012 to 31.6 Tcf in 2040 (or by approximately 23 percent).² The EIA predicts that natural gas consumption for electric power generation will grow by about 2 Tcf – or approximately 33 percent of the overall increase – in total natural gas consumption by 2040.³ Yet, despite this

² See Market Trends: Natural Gas, Industrial and Electric Power Sectors Drive Growth in U.S. Natural Gas Consumption (May 7, 2014), *available at* http://www.eia.gov/forecasts/aeo/MT_naturalgas.cfm.

³ *Id.* Other forecasters believe these estimates are too low.

increasing reliance on natural gas, some participants in the electric industry have been reluctant to commit to purchasing firm transportation on pipelines, instead relying upon interruptible transportation to meet their growing natural gas needs.

As the most recent winter proved, reliability in supply and stability of price demand that the sale of firm power be backed by an equally firm source of fuel – whether that be coal on the pile, oil in the tank, or natural gas capacity in the pipe.⁴ The price spikes last winter resulted from inadequate natural gas pipeline capacity in the Northeast and forced outages in that area. To that end, PGC believes that the generation of firm (and reliable) electricity requires firm access to fuel supplies: firm gas-fired electricity generation should not be dependent upon interruptible delivery of natural gas supply. As was later uncovered following the winter season, pipelines in the Northeast did not curtail service to firm transportation customers during the extreme weather events; only interruptible transportation customers faced supply shortages due to lack of transportation capacity. The fact that delivery of natural gas supplies to generators relies upon interruptible transportation capacity in this region placed the reliability of the grid at risk this past winter.

To the extent that generators allege that the wholesale electric markets do not compensate the generators for this cost, then the compensation issue should be investigated and addressed on the electric side. However, to the extent that the Federal Energy Regulatory Commission finds any market design flaws in electric markets, these flaws should not to compromise the reliability of natural gas transportation or increase costs to existing shippers.

Unless electric generators secure firm pipeline capacity rights (and stop relying significantly upon interruptible service), natural gas pipelines lack the financial incentive to build additional pipeline infrastructure to serve this load. Indeed, this fact underlies a critically

⁴ This rule may require appropriate changes in electric market rules.

important – and often overlooked – fact about the gas industry: instead of an “if we build it, they will come” mentality, natural gas pipelines historically are built under a “if they come, we will build it” mindset. Thus, once electric generators demonstrate a commitment to purchasing firm capacity, pipelines will build infrastructure to deliver that capacity. To ensure the reliability of the electric grid during future extreme weather events (and indeed, in general), PGC believes electric generators must have sufficient firm transportation to access fuel supplies. Given the high value industrials place on reliability, PGC members support appropriate changes in market rules that are necessary to accomplish that goal.

As end users of natural gas, PGC members place a high value on reliability – even if that reliability comes at a higher cost. However, these costs should be borne by the specific users of the services provided, not subsidized by others or socialized in general. Price stability and predictability are necessary to encourage continued industrial investment.

PGC is concerned that while this past winter saw “extreme” cold weather, the weather the United States experienced this winter could become more common. Further, anticipated retirements of base load power plants, such as coal and nuclear plants, and the increasing reliance on intermittent renewable resources will only exacerbate existing infrastructure challenges in the Northeast and the need for reliable, available gas supply. PGC believes the issues surrounding inadequate pipeline infrastructure, particularly in the Northeast, should be addressed.

V. CONCLUSION

PGC appreciates the opportunity to submit these comments. We look forward to working to develop comprehensive solutions to the complex issues presented by the extreme weather

events of last winter. In particular, PGC welcomes discussion of the issues surrounding the need for increased pipeline capacity to ensure reliable electricity generation.

Respectfully submitted,

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